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enabled to obtain sufficient credit to buy seeds, fertilizer, livestock, machinery and other means of production and to make it unnecessary for them to sell their crops immediately after harvest at extremely low prices. The Mission therefore suggests that the Development Board provide sufficient funds to raise the paid-in capital of the Bank to about ID 2,000,000. This should permit the Bank to expand its credit operations and refund its borrowed resources. Action to enable the Bank to increase its lending will be largely ineffective, however, unless at the same time greater care is exercised to insure that loans are promptly repaid and that farmers, who are often improvident, borrow only for purposes which will increase their output. In the past a considerable portion of the Bank's capital has become frozen as the result of repeated extensions of the maturity dates on its loans.

Good storage facilities for grain and perhaps other crops would reduce losses due to infestation, improve the quality of grain, assist in the stabilization of prices and provide some assurance against famine. At present grain is often stored in the open or in inadequate buildings and sheds. A modern 5,000-ton grain elevator has recently been erected in Baghdad, and another of 40,000 tons is projected for Basra to serve the export trade. There is, however, an urgent need for less elaborate and smaller storage facilities throughout the grain-growing areas. These could be of simple concrete or corrugated steel construction and range in capacity from 1,000 to 3,000 tons. Simple cleaning machinery would be desirable in order to remove impurities from the grain. Such storage facilities, which might have a total capacity of about 75,000 tons, would presumably be owned and operated by the Grain Board, an autonomous government agency, and would need to be closely controlled so that the Agricultural Bank could with safety make loans against grain stored in them by farmers and merchants. Under such conditions, more merchants would probably enter the market to bid for grain at harvest time and farmers themselves would not be under the necessity of marketing their grain immediately after the harvest irrespective of the level of prices.

Although an impressive law on cooperatives has been put on the statute books, almost nothing has been done to organize effec-

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or because the investment is in a new and untried field which does not for the moment appeal to private capital. For the chemical plant proposed by the Mission the latter would probably be the case. The government apparently is also furnishing all of the capital for the oil refinery. Wherever complete government ownership is considered necessary, it would be desirable to have the Development Board act as the government's agent in putting up the necessary capital.

On the other hand, the existing Industrial Bank should be used as the agency for giving needed assistance to industry in all cases where the need is for expansion of present capacity or where there is a prospect of private participation in establishing new industries. This Bank, which began operations in 1946, has already performed useful work in promoting industry. At the end of February 1951 it had outstanding loans totaling ID 238,650 and participations in industrial enterprises amounting to ID 629,272. It has been handicaped, however, by a shortage of funds, since the government has paid in only ID 600,000 out of an authorized capital of ID 1,000,000. Its resources have to some extent been supplemented by borrowing ID 100,000 and ID 200,000 respectively from the Awqaf Administration and the National Bank. The Mission suggests therefore that the Development Board provide the means for gradually increasing the Bank's capital by about ID 5,000,000 which the Bank would be authorized to use for the making of loans to, and investments in, industry within the framework of an overall program approved by the Development Board.

Aside from making loans for production facilities, the Industrial Bank could assist industry by financing the construction of a bonded warehouse at Baghdad, so that credit could be extended on materials stored therein. The absence of such warehousing facilities has caused a chronic shortage of working capital in most industrial enterprises, for under existing conditions much of their capital is tied up in stocks of supplies.

The Bank's capital should be used primarily as a revolving fund. The Bank should generally dispose of its industrial shares whenever an enterprise becomes profitable and therefore capable of attracting more private capital. Profit-making assets should be kept only to the extent necessary to maintain a reserve against possible

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for three or four days. In packing and grading, growers do not separate the bottom, middle and top leaves or take care that packing takes place only when the moisture content and the pliability of the leaves are just right.

The second reason for the poor quality is inadequate grading and manipulation by the Monopoly. Tobacco is graded for the Monopoly by committees whose members are generally untrained. Classification is by color only and a bale given a single grade often has tobacco ranging through all shades of green, yellow and brown. Influential cultivators, or merchants acting on their behalf, can often obtain grades for their tobacco unwarranted by its merits. Thus the grading system offers little or no incentive to the grower to produce the best possible tobacco. Finally, the Monopoly stores tobacco under conditions which contribute to its rapid deterioration. Warehouses are often exposed to the elements and are without temperature and humidity control so that tobacco may alternately ferment and dry out. Little re-grading or manipulation is done in warehouses.

Farmer Income from Tobacco

Whether the Kurdish farmers have on the whole obtained an adequate income from tobacco is less easy to determine. Their income from tobacco has depended on (1) the amount of tobacco purchased from each year's crop by the Monopoly and the prices (less *istihlak* and land tax) paid, and (2) the amount of tobacco sold illicitly and the prices realized thereon. Unfortunately, not enough data are available to permit an estimate of the income of tobacco farmers. Data on prices paid by the Monopoly for the first three years of its operation are lacking; figures on total tobacco production, from which the amount marketed illicitly might be deduced, do not exist; and little or nothing is known about the prices realized on tobacco marketed illegally.

During the war the Monopoly, which was supposed to equate the supply of tobacco with demand by licensing the area under cultivation, apparently made no real effort to use licensing as an instrument for the restriction of production. The area licensed rose steadily from 28,014 donums in 1940 to a peak of 71,730 in 1944. In the period 1943-45 the income of farmers was also considerably

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followed by cooperatives and to audit the accounts of cooperatives. The necessary staff will have to be trained abroad, preferably in Cyprus where a diversified cooperative movement flourishes. It will also be desirable to give some instruction in cooperatives in the teachers' training colleges and the agricultural schools.

One of the logical places to start with the organization of cooperatives would be in new agricultural settlements as was done in fact in the Dujaila project. People who start afresh in a new settlement will generally be more receptive to new forms of organization. In these new settlements cooperative ownership of tools and machinery will probably be most important. Care must be taken not to overburden the cooperative with too many activities at the beginning. Operations should be expanded only as experience is acquired.

As already indicated, the need of the fellah who continues to farm on a sharecropping basis is the most urgent. He cannot therefore be neglected in the effort to establish cooperatives even though his poverty and his relations to his landlord may make the organization of cooperatives particularly difficult. Among those fellahin, one might begin with the organization of credit cooperatives which would make loans not on the security of the borrower's possessions but on his reputation for work, honesty and thrift. In this way the fellah might be able to obtain credit on more reasonable terms for the purchase of tools, seeds, animals and other requisites. Initially such credit cooperatives would probably need to be financed almost entirely by the Agricultural Bank, but the objective should be to base their operations increasingly on the regular savings of their members.

XI. Storage Facilities and Credit

Farmers are also in need of adequate facilities in which they can store their produce and obtain credit against warehouse receipts. At present, prices tend to dip sharply at harvest time because the farmer is generally compelled to sell his crop immediately after or even before harvest in order to obtain needed cash. The merchants with money then reap the benefit of subsequent price advances. More storage and credit facilities would enable

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the farmer to get a fairer share of the price and bring about greater price stability. Even if the merchants primarily used these facilities, the farmer would still benefit indirectly because more merchants would be financially able to compete for his products.

Grain stores are especially needed. Cotton can at present be stored at ginneries, and the Agricultural Bank is lending money on such cotton. Aside, however, from a 5,000 ton silo at Baghdad, which went into use with the 1951 harvest, the country possesses no modern grain storage facilities. The Grain Board which is charged with responsibility for storage projects is contemplating the construction of a 40,000 ton silo costing about ID 2,145,000 at Basra. This silo would primarily serve the export trade. It would be desirable to supplement these two with a number of smaller stores, less elaborately equipped and located nearer the centers of production. Such stores would afford necessary protection against grain pests and also help to mitigate the fear of famine which is ever present in a country with sharply fluctuating harvests. If equipped with simple cleaning plant they would help greatly to improve the quality of the grain. Grain thrashed by hand according to the prevailing custom contains from 15 to 40 percent foreign matter and from 5 to 15 percent dirt. The number, location and size could only be determined after a thorough survey. It is not unlikely, however, that from 12 to 18 such stores with an individual capacity ranging from 2,000 to 5,000 tons and a total capacity of about 75,000 tons would be needed. For the most part they will not have to be mechanized and can consist basically of simple steel or concrete sheds. The total cost would probably not exceed ID 750,000.

Two possible obstacles to the actual utilization of grain storage facilities should be considered. There may be a disinclination to use them for fear of giving the government knowledge of such stocks and thereby exposing them to taxation. Much grain now escapes taxation. To encourage people to take advantage of the stores it may therefore be necessary to reduce substantially or abolish the *istihlak* tax which is a type of sales or turnover tax. Other reasons for abolishing or reducing this tax have already been advanced elsewhere.[14] Another difficulty in the way of using such

[14] See the Mission's main report, p. 95.

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storage facilities lies in the wide variation in the quality of the grain. Those with better quality grain may refuse to store it except under conditions which will ensure that it will be kept as a separate parcel. While this may be possible in the smaller, non-mechanized sheds, it will be impossible in the silos at Baghdad or Basra. There, however, it will be desirable at least to have means for weighing each parcel of grain after as well as before cleaning. At present there are no such facilities in the Baghdad silo and none are apparently contemplated for the Basra silo. Under such conditions there will be a premium on the storage of grain with a large percentage of foreign matter. Those with relatively clean grain harvested by combines will, on the other hand, refuse to use the silos.

If credit is to be extended on grain stored in silos, there must be adequate supervision to insure the issuance of proper warehouse receipts and to prevent the release of any stored grain except against the surrender of such receipts. Presumably any new facilities would be owned and supervised by the Grain Board. This Board, however, would hardly be in the position to finance all the proposed additional facilities. In 1950 the International Bank was approached with respect to the financing of the Basra silo, but now that Iraq is assured ample sterling revenue from oil and only a small part of the necessary expenditures is likely to be in dollars, the government may consider it undesirable to contract a loan for this purpose. Financing by the Development Board would then appear to be the only alternative. The Grain Board might even have difficulty in financing the smaller storage facilities. Although its assets as of March 31, 1951, amounted to ID 1,123,969, over 30 percent or ID 321,113 consisted of "fixed assets" and another item of ID 687,222 designated as "sundry debtors" represented almost entirely a claim on the Treasury. Over a number of years the government has levied a one percent tax on grain for the benefit of the Board but it has retained the proceeds provisionally for its own needs. As long as the ordinary budget remains tight, as is likely over the next few years, the government may find it difficult to convert this claim into cash. Under such circumstances the Development Board may find it necessary to give financial assistance for the smaller projects.

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power by industry is out of the question. It is hoped, however, that in time this may be corrected.

Even in Baghdad the purchase of power by industry would be greatly stimulated by a reduction in the industrial rates of the Baghdad Light and Power Company. Profits, after depreciation but before taxes, are now over half of gross receipts. Under the terms of its concession, the company pays a substantial part of these profits to the Iraq Government, the remainder being allocated to United Kingdom taxes, reserves for capital expenditure and dividends. The Iraq Government's share in the profits effectively constitutes a tax on electricity consumption, which it might be well advised to forego if it could thereby secure an equivalent reduction in power rates to Iraqi industry. The government might, therefore, explore with the Company and with the tax authorities in the United Kingdom the possibility of an equitable arrangement, whereby power rates would be reduced as far as possible, while still providing adequate funds for capital improvement and continuing a fair return to stockholders. A possible arrangement that has to be considered is the exercise by the government at the end of 1954 of its option to purchase the undertaking as a going concern. If such a course should be decided on, it would be desirable to enter into a management contract with the Company in order to ensure the continuance of efficient operation.

The amount of working capital required in Iraq per unit of production is exceedingly high, partly because enterprises want to be as self-sufficient as possible with respect to needed supplies and materials, partly because Iraq is relatively distant from international markets. Probably the best means of reducing the need for working capital would be through the erection and operation of a bonded warehouse which would provide all industries with facilities to store, until needed, supplies, material and chemicals of all types under conditions that would enable banks to extend credits on the stocks in bond. In this way the banks would have assurance that the stored material would not be released prior to full payment plus interest, storage and service charges. In effect, this would permit operations along lines very similar to those in highly developed countries where supplies and materials are obtained in accordance with production schedules.